

CHINA'S WTO ACCESSION IN AMERICAN PACIFIC STRATEGY

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Good afternoon, everyone, and thank you all for coming.

Let me express my gratitude to the Kennedy School for inviting me to speak today on one of America's most important trade and foreign policy goals – China's accession to the World Trade Organization and permanent Normal Trade Relations status.

We are meeting just a few miles from the place where our trade relationship with China began – with the departure from Boston Harbor of the *Empress of China* in 1785 – and the Kennedy School is thus an ideal place to think about the type of relationship we should have with China in the next century. And that, ultimately, is the question before us in the WTO accession.

ONE-WAY CONCESSIONS

In the most basic sense, of course, WTO accession and permanent Normal Trade Relations status are simply technical trade issues. And as such they offer us a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. It strengthens our guarantees of fair trade and our ability to enforce Chinese trade commitments. By contrast, we make no changes whatsoever in our market access policies; in a national security emergency, we can withdraw the market access China now has. We change none of our laws controlling the export of sensitive technology, and amend none of our fair trade laws. We agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. It will keep its market access in America. The only question is whether, by making NTR permanent, we will accept the benefits of China's WTO accession and the historic agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are

left behind.

DEEPER IMPLICATIONS

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but this decision also has wider implications.

China is the world's largest country; over the past decade it was the world's fastest-growing major economy. Our future relationship, inescapably, will have great bearing on American security and strategy in the 21st strategy. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension. Many people ask why we would proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- I believe necessary -- to judge the WTO accession in light of these questions as well. And we can begin by tracing back to its origin the institution China now seeks to join.

AMERICA AND THE TRADING SYSTEM

The WTO, ultimately, has its roots in the era of reconstruction following the Second World War, and in the lessons President Truman and his Allied colleagues had drawn from Depression and War.

In the 1930s, they had seen their predecessors yield to resist a cycle of protection and retaliation, beginning with the American Smoot-Hawley Act and colonial preference schemes in Europe, which had deepened the Depression and contributed to political upheaval. Eighteen years later, they believed that restoration of economic health and living standards was a necessity for a return to stability; and that over the long run, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Secretary of State George C. Marshall summed this up in June of 1947, when he came to Harvard to announce the Marshall Plan for postwar reconstruction in Europe:

“The United States should do whatever it is able to do to assist the return of normal economic health in the world, without which there can be no political stability and no assured peace.”

This emergency assistance plan was joined a few months later by a much longer-term initiative: the reopening of world markets through the foundation of the General Agreement on Tariffs and Trade. And both in turn were elements in a larger series of related policies and institutions that have served for six decades in the building of a more open and peaceful world:

– Collective security, reflected by the United Nations, NATO, the Rio Treaty and our

- alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank, then the Marshall Plan and the foundation of the GATT on the other.

Altogether, these presented a consistent and coherent vision: the rejection of the closed world economy and virulent nationalisms of the 1930s, in favor of an open world characterized by shared responsibility and mutual benefit.

The work begun with the GATT foundation in 1948 has now continued for fifty-two years. And the faith our postwar leaders put in freedom, open markets and the rule of law has been abundantly vindicated. In eight Rounds of negotiations, and as 112 new members joined the 23 GATT founders to form today's World Trade Organization, we abandoned the closed markets of the Depression. We reintegrated Japan and Germany; cut tariffs by 90% and moved on to non-tariff barriers, agriculture, services and many other issues; and are now, through the WTO accessions of reforming economies and new democracies in Europe and Asia, helping to support reform and economic opening in the countries once ruled by strict communist planning.

Taking the long view, this has helped to foster a fifty-year economic boom. Since the 1950s, trade has grown fifteen-fold; the world economy six-fold; and per capita income has nearly tripled. America, as the world's largest exporter and importer, may benefit perhaps most of all -- but social progress has been broadly shared, as since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And weighed in the most profoundly important scale of all, together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, the work of trade policy has helped to make the world substantially more prosperous, stable and peaceful than before.

CHINA FROM REVOLUTION TO REFORM

And this brings me to China.

For many years, the world's largest nation was one of the missing elements in this design. As it happens, Marshall had spent the year before his visit to Harvard in China, attempting to help the Communist and Kuomintang factions in China's civil war settle their differences. They had proved irreconcilable; and as a result, with the Communist revolution in 1949, China shut the doors it had once tentatively opened to the world.

Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies -- destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right

to object to these policies. The rule of law vanished: between 1949 and 1957, the number of lawyers in China shrank by 70%; and in 1957, with the opening of the so-called “Anti-Rightist Campaign,” most remaining law offices were closed, lawyers arrested or sent to the countryside, and the Ministry of Justice itself abolished. And all this had international effects as well: Asia’s largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. China’s rejection of these concepts in the Maoist era made up an equally coherent and consistent policy: its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region. And more recently, China’s economic reform and opening to the world since the 1970s has had implications of fundamental importance for daily life in China, and for China’s role in Asia.

China’s domestic reforms since the 1970s have helped to undo its isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. Reform has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and enabling private business to revive in villages and cities. A number of earlier policies, notably bans on foreign investment and private export trade, have been substantially relaxed although not abandoned entirely.

American trade policy has worked with these trends. This has been bipartisan and consistent, from the lifting of the trade embargo in 1972 under President Nixon, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; renewal of NTR ever since; our support for China’s APEC membership; and most recently more detailed agreements on market access, intellectual property, textiles and agriculture. Each step not only created new opportunities for Americans, but helped to support reform in China, and reintegrate China into the regional and world economies it left in 1949.

To look at one specific example, our work on intellectual property rights since the early 1990s, based on our commitment to fight theft through piracy of our most creative industries, has helped us to nearly eliminate manufacturing and export of pirate CDs and CD-ROMs. But it means more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before.

RESULTS TO DATE

Taken as a whole, Chinese reform and U.S. trade policies have worked together to create a remarkably positive set of results. In an economic sense, reform and foreign investment have helped 200 million Chinese men and women escape from poverty; for our part, we always benefit from reduction of poverty overseas, as demonstrated in the Chinese case by America’s \$10 billion

in export growth since our commercial agreement. And China's economic opening has helped to foster advances that go beyond simple material gain.

We should not, of course overstate progress: much of China's political system remains repressive and authoritarian. This is detailed in comprehensive form by the State Department's Human Rights Report; it is why we are presenting to the UN Human Rights Commission a resolution condemning China's human rights record, and have sanctioned China as a "country of particular concern" under the International Religious Freedom Act.

But it is also fair to note that as reform has proceeded, respect for a number of basic rights and liberties cited in the Universal Declaration has grown. This is true with respect to property rights, with farmers able to farm their own land, entrepreneurs able to start businesses, and families able to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to access foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners as well as people from Hong Kong and Taiwan.

And China has become a more integrated, responsible member of the Pacific community. With reform and opening to trade, China's neighbors became China's customers and investors; concurrently, China moved away from its earlier revolutionary foreign policies. This was clear in the Asian financial crisis: where China once saw South Korea and the ASEAN states as ideological rivals, by the time of the crisis, they were the markets which support Chinese factories and farm incomes, and the investors who create jobs and growth. China's willingness to maintain currency stability and contribute to IMF-led recovery packages was thus a clear matter of Chinese national interest -- but also evidence of an immensely important shift of perspective within China on the role it should play in the Pacific region.

CURRENT TRADE BARRIERS AND ECONOMIC CHALLENGES

But as valuable as it has been, reform remains incomplete.

Some policy legacies of the 1950s remain in force: bans on foreign participation in the information industries; control over economic contact with foreigners; and restrictions on the ability of foreign and Chinese businesses to distribute their products and trade with one another. Others are only partly reformed -- foreign companies may now invest in China, but lose the right to import the parts they choose and market their products as they see fit. Beyond this, China's trade barriers remain high, and have been joined by newer industrial policies requiring that investors transfer technology, purchase parts only from Chinese sources, and so forth, which work together to prevent exports and force investment, employment and technology into China.

Thus our \$10 billion in export growth since 1980, while substantial, is far less than our export growth to Europe, Japan, South Korea, the ASEAN nations, Canada, Mexico, Taiwan or the Caribbean Basin over the same period. And China's external and internal trade barriers block

not only American exports but – as China’s senior leaders realize – have led to corruption and economic inefficiencies which block China’s own prospects for sustainable growth, job creation and technological progress.

THE WTO ACCESSION

These are problems WTO accession will help address, through a comprehensive set of commitments across the range of industrial goods, services, farm products and unfair trade practices. To look at the specifics:

China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. For information technology products such as telecom equipment, semiconductors and computers, tariffs will drop all the way to zero. China will eliminate all quotas and discriminatory taxes. And equally important, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

In services, China’s markets are now among the world’s most restricted. Since 1949, China has barred all direct foreign participation in telecommunications. It allows two U.S. insurance firms to operate, on a limited basis, in two cities; it allows foreign banks to conduct local currency business in two cities and for foreign customers only. With our agreement, markets open across the board, from telecom, banking and insurance to distribution, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries.

And the agreement strengthens protection of American workers and businesses against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use special non-market economy methodology to address dumping for 15 years.

All these commitments are specific and fully enforceable, through our trade laws; WTO dispute settlement; periodic multilateral review of China’s adherence; multilateral pressure from all 135 WTO members; and other mechanisms such as the special anti-dumping and anti-import surge remedies. We are preparing for the work today, with the President’s request for a tripling of funds for China compliance and enforcement in his FY 2001 budget.

Finally, China’s entry will facilitate the entry of Taiwan into the WTO, as Taiwan’s new

leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China. And the opening of both these economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait.

PERMANENT NORMAL TRADE RELATIONS

And this brings me to permanent NTR. China will enter the WTO regardless of our debate. It will keep its rights to sell in the U.S. market regardless of our debate. What Congress must now decide is whether we will receive the benefits by granting permanent NTR.

In terms of our China trade policy, this is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, we would therefore lose most of the benefits of this agreement. As a result, Canadian lobstermen would gain the right to market to Chinese hotels and restaurants at the expense of their neighbors on the North Shore and the Cape. Asian and European telecom and financial firms would gain market access rights while Route 128 and downtown Boston are shut out. Our Asian, Latin American, Canadian and European competitors will be able to enforce their rights through dispute settlement and we will be left behind.

WTO ACCESSION AND CHINESE REFORM

The economic cost of retreat at this most critical moment would thus be quite high. But when we think about the benefits at stake in the permanent NTR debate, the economics are not the most important point at issue. Just as our role in the foundation of the GATT was closely linked with the Universal Declaration on Human Rights and our postwar alliances -- and just as China's economic isolation in the early years of the Cold War contributed to domestic repression and international upheaval -- China's WTO accession today will help us as we consider broader questions of human rights and security.

As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in

- information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They reform policies dating to the earliest years of the communist era. They will give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather the economic opening to and engagement with the world and ultimately development of the rule of law inherent in the initiative we began with the foundation of the GATT.

In this context, the WTO accession assumes its full significance, as an agreement that not only opens Chinese markets to our products, but can serve as a foundation for the rule of law within China; and as a precedent for willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights -- Bao Tong, jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission two weeks ago drew worldwide attention and sympathy; Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a founder of China's modern human rights movement who has spent years of his life in prison -- see the WTO accession as China's most important step toward reform in twenty years. It is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

CONCLUSION: WTO ACCESSION AND A STABLE PEACE

And it is why WTO accession, and permanent NTR, are essential elements as we return to the question with which I began: our relationship with China in the 21st century.

It is quite true that we have disagreements with China. And when we disagree we must act with candor and firm assertion of our interests and values -- as we are now doing in Geneva at the UN Human Rights Commission. But we must also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas of shared interest and benefit.

No trade agreement will ever solve all our disagreements, but this will address many of them. And if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of such a relationship with the world's largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda today -- from non-proliferation and arms control, to reducing tensions in Korea and South Asia. It would complicate for the foreseeable future our existing Pacific alliances, as all of our

Asian friends and allies would view rejection of PNTR as an unnecessary rejection of stable and constructive relations with their largest neighbor; and a turn away from the open, confident vision we have held for the Pacific over the years. Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence for every Pacific nation and for ourselves.

But if we have the wisdom and confidence to make the right choice, we have a remarkable opportunity.

Ever since the era in which Secretary Marshall spoke on the steps of Widener Library, America has led in building a system of open markets under the rule of law; which in turn has contributed to the creation of a more peaceful world. China's absence from this system in the 1950s and 1960s helped bring upheaval and conflict throughout Asia. Its partial integration since the 1970s has meant stability and reduced tensions. And the WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process for many years.

In the coming weeks, therefore, we have a chance -- a chance comparable to only one or two others in the past half-century -- to build a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the meaning of this agreement. This is the stake in the decision New England's delegation, and America's Congress, will make in the weeks ahead. This is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement; and why it is so important that we succeed.

Thank you.